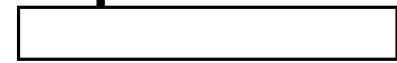


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LAOS

There are strong indications that communist-inspired demonstrators intend to attack and possibly occupy the US embassy compound in Vientiane tonight, according to the US charge.

The embassy is taking all necessary precautions to ensure the safety of the 22 official American personnel still in the Lao capital. US officials have formally requested police protection for the embassy from the Pathet Lao - controlled Foreign Ministry, but no assurances of such protection have been forthcoming. Several senior coalition government officials, who probably are aware of the possibility of impending demonstrations, are planning to absent themselves from Vientiane today. Prime Minister Souvanna Phouma is scheduled to fly to the royal capital of Luang Prabang with his half-brother, Lao communist leader Souphanouvong.

Pathet Lao Deputy Prime Minister Phoumi Vongvichit remains in the Lao capital, but has been described by his aides as "too tired" to see US officials. The US charge has been attempting to gain an audience with Phoumi since he returned to Vientiane on June 28, following a three-week strategy meeting of the Lao Communist Party Central Committee in Sam Neua. In addition to trying to secure Phoumi's cooperation in heading off the threatened demonstrations, the charge also hoped to register a strong protest over the week-long occupation of four American installations in Vientiane by Pathet Lao troops and armed civilian demonstrators. The occupation is continuing.

Phoumi's "unavailability" could be politically motivated, but he reportedly did suffer a mild heart attack in Sam Neua recently. British Ambassador Davidson, who conferred with Phoumi on July 1, lends some substance to the heart attack story. Davidson has told the US charge that he was "shocked" by Phoumi's physical appearance, that the Deputy Prime Minister had lost weight, moved about slowly, and obviously was not well. While not identifying his malady, Phoumi did tell the ambassador that he had been hospitalized in Sam Neua for a week and intended to take one to two months rest. Phoumi hinted that one of his "colleagues" from Sam Neua might come down to Vientiane to take charge of the Foreign Ministry.

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LEBANON

Fighting in Beirut diminished sharply yesterday as the major Christian, Muslim, and Palestinian groups dismantled their barricades and security forces flushed out snipers. Government spokesmen announced that major roads are open and called on civil servants to return to work.

Radicals backed by Libya and Iraq continue to engage in hit-and-run attacks designed to foment further clashes, but they are under pressure from Palestinian and Syrian leaders to lay down their arms. Leaders of most of the fedayeen "rejectionist" organizations have grudgingly agreed to go along with the cease-fire as endorsed by Palestine Liberation Organization leader Yasir Arafat.

Violence continued beyond the cease-fire deadline in other Lebanese cities—particularly in the northern port of Tripoli—but by late yesterday afternoon had diminished significantly. Army tanks reportedly were called in to halt fighting between Christians and Muslims in one town in eastern Lebanon.

Prime Minister Karami and Interior Minister Shamun have said that the security forces will patrol all areas of the city and fire on anyone who challenges them. This is the first time in more than a year that Lebanese government leaders have given explicit backing to the beleaguered security services. Their statements will do much to improve morale and effectiveness.

In an effort to reassure the Socialists and Phalangists, Karami has reaffirmed publicly that the current cabinet will as soon as possible be expanded or replaced by a larger government of "national union" that will represent all political factions. In the meantime, the existing cabinet is expected to present a policy statement to parliament and ask for a vote of confidence.

Socialist leader Kamal Jumblatt, who backed Karami but was disappointed with the ultimate composition of his cabinet, has already called for its replacement. Jumblatt has charged that the only virtue of Karami's cabinet is that it brought down the military government.

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PORUGAL

Leaders of the Portuguese Armed Forces Movement, caught between the law and their support for the working class, are having trouble responding to the growing number of worker take-overs in Portugal.

Negotiations began on Tuesday to settle the dispute over the Socialist newspaper *República*, which was closed by the government six weeks ago after pro-Communist printers attempted to seize control of the paper. Socialist editor Raul Rego characterized the first day of talks as "difficult." Much of the difficulty presumably has developed because there are nearly 150 participants in the discussions, including representatives of the newspaper's Socialist managers and journalists, the Communist printers, the internal security forces, and the ruling Revolutionary Council.

Resolution of the dispute may be further complicated by hard feelings between the Communists and the Socialists over a French edition of *República* that published an alleged Soviet document outlining the strategy of the Portuguese Communists. Both Moscow and the Portuguese Communists have denied the authenticity of the document, and the Portuguese Communists have promised to take the issue to court.

In the meantime, the Lisbon government, in an attempt to avert further discord with the Catholic Church, has ordered leftist workers to return the church-owned radio station to its legal owners. The workers, supported by other groups of the extreme left, have refused to abandon the studios, unless expelled by force. The Revolutionary Council reportedly met in emergency session yesterday afternoon to discuss this and other pressing issues.

Despite the government's apparent desire to resolve these problems, early solutions do not appear to be in sight. The Revolutionary Council agreed to return *República* to its Socialist owners last month, but the security forces—openly sympathetic to the workers—refused to carry out the order and allowed the printers, not the management, access to *República* offices. Security troops also refused to expel workers during the early days of the radio station take-over, although the government announced that the seizure was illegal.

In what may be the first indication of a firmer position, the government announced yesterday that it could not allow workers to create a "chaotic situation." Security troops followed up the announcement by blocking the attempted take-over of Lisbon's telephone system by striking workers. Anxious to preserve their reputation among the workers, the security forces issued a statement regretting that force had been necessary. They blamed the extreme left-wing groups behind the strike for "acting negatively" and accused the strikers of refusing to negotiate with the government.

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SPAIN

The significant victory of illegal leftist labor groups in the month-long nationwide labor elections in June will set the stage for a battle over liberalizing the government's tight control of the Syndical Organization—the only legal labor organization in Spain.

According to press reports, nearly complete tabulations reveal that more than 75 percent of the 360,000 incumbent shop stewards—the lowest echelon in the Spanish syndical system—were ousted. Indications are that most of the winners are members of the illegal labor organizations, including the Communist-dominated Workers' Commissions.

The winners favor radical transformation of a system which lumps workers and management in an organization dominated by management and government. Although they are clearly opposed to the regime, it is by no means clear that the majority of the victors are Communists. In fact, the government took steps to eliminate the most radical candidates through eligibility rules.

Balloting at the factory level is only the first phase in the elaborate syndical electoral process. Elections will be held this fall for local, provincial, and national positions in the Syndical Organization, as well as for labor representatives in parliament. The results of this first round will make it more difficult for the syndical hierarchy to manipulate these elections as they have in the past.

Prime Minister Arias favors limited reform of the syndical system to meet worker discontent, but reform efforts until now have been sidetracked by members of the conservative syndical bureaucracy who are supported by ultrarightists with ready access to Franco. Failure to heed the results of the changes at the grass-roots level will worsen labor tensions.

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AUSTRALIA

Prime Minister Whitlam's firing of Deputy Prime Minister Cairns from his cabinet has put the Labor government under the most serious strain since it took office two and a half years ago. A breakup of the government cannot be excluded.

Whitlam was dissatisfied with his deputy's explanation of questionable financial dealings. The Prime Minister obviously felt that Cairns had committed inexcusable improprieties, despite the fact that some of the evidence against him that appeared in the press is known to have been fabricated.

Adding to disarray in the party, many Laborites are putting the blame on Whitlam for Labor's crushing defeat in a by-election last weekend. Tensions could reach the breaking point if Whitlam now tries to push the party caucus to replace Cairns as deputy party leader.

Prior to Cairns' dismissal, the opposition Liberal-Country Party coalition had not indicated an intention to use its parliamentary advantage to push for national elections. Liberal leader Fraser has said that he was content to let Labor ride out the remaining two years of its three-year term, unless "unforeseen and reprehensible" events occurred. Should the Labor Party's scandals deepen, however, Fraser may conclude that he cannot afford to pass up the opportunity to force the government to the polls.

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JAPAN - SOUTH KOREA

Japanese Foreign Minister Miyazawa will visit Seoul later this month, but relations are likely to remain cool.

Japanese government spokesmen are claiming that Miyazawa's main purpose is to coordinate views with Seoul prior to Prime Minister Miki's visit to Washington in August. However, Miyazawa's visit may be intended more as a sop to the Pak government, unhappy over Tokyo's continued postponement of the joint ministerial meeting to discuss economic assistance and other bilateral issues. Although some technical level discussions on aid have taken place, the full-fledged ministerial meeting has taken on considerable symbolic value for Seoul. Prime Minister Miki, among others, is insisting that Seoul first make further amends for the 1973 kidnaping of South Korean opposition leader Kim Tae-chung from Tokyo, an incident that stirred considerable resentment of the Pak government in Japan.

Tokyo's failure to ratify the Japanese - South Korean continental shelf agreement during the current Diet session is also a source of friction. The agreement was ratified by Seoul last year, but Tokyo is concerned about certain territorial jurisdiction questions and did not want to risk tying up the Diet with a divisive debate. Seoul has threatened to move ahead unilaterally to develop oil resources thought to be present on the continental shelf if the agreement is not ratified soon—a move which would generate further political frictions between the two countries.

Non-governmental efforts to improve the atmosphere have helped a little. Japanese business delegations continue to visit Seoul, and a large Japanese parliamentary delegation will go to South Korea next week. Progress at the official level, however, may be slow. No resolution of the Kim Tae-chung incident is now in sight, although discussions on a compromise are continuing. Tokyo had previously talked about having the ministerial meeting in September, but even this may not be possible. Both sides, however, share strong mutual interests, and neither would like to see their differences get out of hand. [redacted]

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ANGOLA

Although Angola's three competing liberation groups are doing little to implement the terms of the truce agreement their leaders signed at a meeting in Kenya almost two weeks ago, the heavy fighting that prompted the meeting has fallen off sharply. Partisans of the two major groups—the National Front for the Liberation of Angola and the Popular Movement for the Liberation of Angola—continue to skirmish occasionally in Luanda, however.

The Popular Movement is maintaining a blockade on shipments of foodstuffs by road from Luanda to areas in northern Angola controlled by the National Front. Northern Angola traditionally has depended on Luanda and low-level trade with Zaire for food and consumer goods. To relieve the situation, Portuguese naval ships are delivering some supplies to northern ports controlled by the National Front. The Popular Movement's blockade also has discouraged the influx of migrant workers from the south; they provide the bulk of the labor force for the coffee plantations in the north.

The transitional government's cabinet, composed of Portuguese officials and representatives of the three liberation groups, has been meeting since June 28 in an effort to work out details for establishing a national army. No progress appears to have been made. The agreement signed in Kenya called for an integrated army made up of troops provided by the liberation groups and the disbandment of the separate forces of the three groups. The original independence agreement signed with the Portuguese last January also called for a national army, but allowed the groups to maintain independent military forces too.

Nothing has been done to comply with one of the key provisions of the agreement—disarming civilians. In past fighting, armed civilians have proved to be a valuable auxiliary for the Popular Movement in areas, particularly Luanda, where its regular military force has been outnumbered by National Front troops. The Popular Movement controls the ministries responsible for disarming the civilians and is in no hurry to implement the provision. Protracted delay, however, could prompt the National Front to attempt to do the job with its own troops, a move that would surely lead to renewed heavy fighting.

Portuguese officials in Luanda admit that the emigration of whites is climbing sharply. About a third of the 300,000 whites living in Angola at the time the transitional government was installed last January have already left. Officials expect the majority of those remaining to go in the near future. Many officials doubt that the emigres will return, even if a peaceful transition to independence next November can be worked out. [redacted]

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ANNEX

British Anti-Inflation Struggle

Chancellor of the Exchequer Healey's threat to limit wage increases unless labor agrees to voluntary restraints has forced union and industry leaders to face up to the inflation problem sooner than they expected. The government plans to issue a white paper next week outlining its economic program.

Healey told parliament this week that unless labor volunteers to help reduce the rate of inflation to 10 percent by next year, the government will limit the funds available to the nationalized industries for wages and, through price controls already on the books, will limit the ability of private employers to pass the cost of pay increases to consumers. In this way, the government would control wages and prices without putting controversial wage-control measures on the books. The unions would be faced with the dilemma of choosing between higher unemployment or limited wage increases.

Most union leaders recently have become more aware of the need to lower the current rate of inflation and have been talking about keeping wage and price increases next year to about 15 percent. As a price for this restraint, they want the government to take steps to reduce unemployment and to cut or freeze salaries of top earners.

Likely Government Action

The government probably will have no choice but to follow through with its threat to limit wage increases because a voluntary restraint program is doomed from the start. The government knows that leaders of the Trades Union Congress have practically no control over militant unions, and leaders of those unions are unable to keep the rank and file in line. Individual unions will be afraid that if they comply with government guidelines, their wage levels may fall below what they might be able to negotiate freely and their wage position relative to other unions would deteriorate. Rising unemployment, however, could serve to soften union demands.

The miners are likely to present the most immediate threat to the government's endeavor to get voluntary compliance. They have already announced that they will be seeking wage increases of up to 65 percent. Healey told Ambassador Richardson last week that he expects the miners to press for a large sum and that the government is preparing now for any eventuality by beginning to stockpile coal.

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Healey may foresee a period of labor unrest if the government acts. He commented yesterday that his government is opposed to the application of criminal sanctions against the unions or individual workers. Party leaders are always conscious of the fact that much of the financial and electoral support for the Labor Party comes from the unions.

Political Consequences

Despite the magnitude of the problems he faces, there are several reasons why Prime Minister Wilson is likely to remain head of the party and government at least until some time next year.

--Wilson still has an effective majority of one in Commons and even if that seat, which is now in jeopardy, is lost, he can rely on the support of many Scottish and Welsh nationalists and on one Ulster vote for much of his legislation. Many Tories too can be expected to vote along with the government on legislation aimed at solving the country's economic problems. Even if the left-wing Laborites in Parliament disagree with Wilson's proposals, they prefer him to a Tory prime minister.

--Wilson himself is not likely to call an election now. Although the Tories have offered no alternative economic program, the general voter dismay with the deteriorating economy would lead to a defeat for Labor. Wilson got this message in the recent by-election which resulted in a Tory victory. Wilson also remembers that former prime minister Heath lost an election fought over similar economic issues.

--Wilson is likely to remain party leader even though many of the left wing would like to dump him. The left has no candidate acceptable to the rest of the party and to the electorate at large. The party headed by a left-winger would be at a disadvantage should it face a general election.

--The Tories would not want to force an election in the near future, even if they had the parliamentary strength to do so. They cannot agree on how to solve the country's economic problems; two years ago when Heath imposed statutory wage and price controls, many Tories opposed his program. They also have a new and untested leader in Margaret Thatcher. Many Tories found her performance disappointing during the campaign before the EC referendum.

--A coalition government composed of the Labor, Conservative, and possibly even the Liberal parties is not in the cards at this time, although the British press has been speculating about such a possibility for over a year. Britain's troubles are not yet of the same magnitude as they were during the Great Depression or World War II, and no politician hoping to lead his or her party to victory is prepared to participate in a coalition at this time.

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Economic Consequences

The new anti-inflation policies proposed by Healey would reinforce the current decline in demand by limiting government spending at a time when private spending is declining, but would not have a substantial effect on key indicators until late this year or early 1976. Wages for most workers for the rest of this year have already been negotiated, so tighter controls would not begin to affect labor costs until late in the fall. Large cost increases already in the pipeline, because of the depreciation of the pound as well as record wage settlements, have not yet been fully filtered through to consumers. As these costs are reflected in market prices, the purchasing power of consumers will be squeezed.

Weak and declining demand for output, as well as the possibility that tighter wage-price controls will squeeze corporate profits, make it unlikely that the upward trend in unemployment will be reversed soon. There are already 900,000 unemployed, and by early 1976 there are likely to be 1.5 million Britons out of work. This would raise unemployment to its highest level since the end of the depression. Britain's best hope for recovery in the near future lies in an upturn in the world economy that will lead to sharply higher exports from the UK.

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